



## OFFICE OF THE COUNTY AUDITOR

### MEMORANDUM

Haskell Arnold, CPA  
County Auditor

August 31, 2007

MEMO TO: Lonnie R. Robbins  
Chief Administrative Officer

Sharon F. Greisz  
Director, Department of Finance

THRU: Haskell N. Arnold  
County Auditor

FROM: Dilawar Lakhani  
Assistant County Auditor

SUBJECT: Annual Physical Inventory of Auto Parts and Fuel - Central Fleet Division  
Fiscal Year Ending June 30, 2007

We have completed a review of the annual inventory valuation process at the Office of Central Services, Central Fleet Division for the fiscal year ending June 30, 2007. The scope of our review related specifically to an annual physical inventory count of auto parts and the measurement of fuel as of June 30, 2007. As presented in the attached report, the total inventory value of the auto parts amounted to \$632,519 and the total inventory value of the fuel amounted to \$307,637.

As part of our review, we observed and tested the auto parts counts, and observed fuel measurements at various sites. The values of physical counts and measurements at these locations were within acceptable variances from the book balances.

We would like to thank the employees who participated in the inventory process for the assistance they provided to us during this review.

Attachment

DL:dl FI07me

cc: Council Members  
Ken Ulman, County Executive  
Marc DesMangles, Chief, Office of Central Services  
Lois Miller, Administrative Services Officer

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**Central Fleet Division  
Annual Physical Inventory  
For the Year Ended June 30, 2007**

According to Central Fleet Policies and Procedures Manual, Sections 12.2.5 and 12.2.6, each shop in the Central Fleet Division is responsible for performing regular physical inventory counts and data entry at the end of June. Physical inventory counts were taken and verified by the stores employees for the fiscal year ending June 30, 2007. We have listed the valuation of parts on various count dates during the month of June for the current and previous year for comparison.

<u>Shop</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Change Amount</u>	<u>Percent %</u>
Alpha Ridge	\$15,910	\$21,329	\$5,419	34.1
Cooksville	\$81,463	\$68,031	(\$13,432)	(16.5)
Dayton	\$244,977	\$236,687	(\$8,209)	(3.4)
Guilford	\$96,642	\$93,610	(\$3,032)	(3.1)
Mayfield	\$156,585	\$183,704	\$27,119	17.3
Utilities	<u>\$32,035</u>	<u>\$29,158</u>	<u>(\$2,877)</u>	<u>9.0</u>
Total	\$627,612	\$632,519	\$(4,907)	(.78)

After taking the count at each shop, the counts were entered in the computer to determine the year end values. A summary report was compiled on July 10, 2007 by the Office of Central Services based on the above valuation reports and the physical inventory dollar value is submitted to the Financial Management in the Department of Finance for the year ended June 30, 2007.

The supervisor at each shop reviewed the variances between the perpetual inventory and the physical inventory counts taken on the inventory count sheets. The counts were compared with the units on hand shown in the perpetual records. The variances were reviewed, recounted, investigated and resolved by the supervisor. After each supervisor was satisfied with their investigation of the accuracy of the parts counted and the recorded units on the perpetual records, the stores technician listed these variances on an annual inventory adjustment form which is used to document an explanation for the difference.

We have summarized below the number of variances found in the records from each shop at the time of the parts counting process.

<u>Shop</u>	<u>FY '06</u> <u>Listed Parts</u>	<u>FY'07</u> <u>Listed Parts</u>	<u>Change</u> <u>in Parts</u>	<u>FY '06</u> <u>Variances</u>	<u>FY '07</u> <u>Variances</u>	<u>Change in</u> <u>Variances</u>	<u>FY '06</u> <u>% Variances</u>	<u>FY'07</u> <u>% Variances</u>
Alpha Ridge	130	144	(14)	15	8	(7)	11.5	5.6
Cooksville	1,018	717	(301)	10	17	7	1.0	2.4
Dayton	1,772	1,572	(200)	177	108	(69)	10.0	6.9
Guilford	2,198	2,063	(135)	39	65	26	1.8	3.2
Mayfield	1,327	1,298	(29)	33	52	19	2.5	4.0
Utilities	<u>226</u>	<u>257</u>	<u>31</u>	<u>8</u>	<u>8</u>	<u>0</u>	<u>3.5</u>	<u>3.1</u>
Total	6,671	6,051	(620)	282	258	(24)	4.2%	4.3%

After the investigations and adjustments were completed, the inventory valuation reports were run based on the counted units. The variances were set to zero and the inventory dollar value records were produced as of the date of the count. We were informed that no adjustments were necessary at the shops from the date of the count to the end of the fiscal year to value the inventory as of June 30.

The shop supervisors investigated the variances and prepared adjustment forms that corrected the perpetual inventory data in the Fleet Maintenance computer program. We reviewed the recorded changes on the adjustment forms and found that the forms were prepared after the counts were taken by the stores technicians and the variances were investigated and approved by the shop supervisors. We have provided a detailed analysis on each shop in the attached pages.

The shop inventory valuation reports were prepared so that we could compare the total inventory value amount before and after the counts and determine the size of the dollar difference. We found that the two valuation reports were run for each shop and noted a total difference of \$962 or 0.15 percent a very insignificant difference for all the shops combined.

The adjustment forms were prepared to correct, report and explain the perpetual inventory differences found while the counts were taken. We reviewed some of the variances listed on the adjustment forms and did not find any part with significant dollar discrepancies. The

adjustment forms indicated that most of the discrepancies were due to missing or incorrect data entry.

We have listed below the recorded (before count) and counted valuation amounts on each shop.

<u>Shop</u>	<u>Value Before Count Date</u>	<u>Value on Count Date</u>	<u>Value Difference</u>	<u>Percent %</u>
Alpha Ridge	\$21,228	\$21,329	\$101	.47
Cooksville	\$68,027	\$68,031	4	.01
Dayton	\$235,678	\$236,687	1009	.43
Guilford	\$97,172	\$96,610	(\$562)	(.60)
Mayfield	\$182,919	\$183,704	\$785	.43
Utilities	<u>\$29,533</u>	<u>\$29,158</u>	<u>(\$375)</u>	<u>(1.29)</u>
Total	\$631,557	\$632,519	\$962	.15

#### Alpha Ridge Shop

We visited the shop on June 25, 2007. The inventory value of the auto parts counted amounted to \$21,329 on the date of the count. The recorded value prior to the count amounted to \$21,228. We took a random sample of 34 items out of 144 parts (23.6%). The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was prepared. We reviewed the records and found a very insignificant difference of \$101 (.47%) the total value.

#### Cooksville

We visited the shop on June 28, 2007. The total dollar value of the inventory value amounted to \$68,031 on the date of the count. The inventory records amounted to \$68,027 prior to the physical count. We selected 71 items out of the total 717 auto parts (9.9%) for our sample

size. The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was prepared.

### **Dayton**

We visited the Dayton shop on June 29, 2007. The inventory value amounted to \$236,687 as of the date of the count. The inventory valuation per the records prior to the date of the count amounted to \$235,678. For our sample we selected 158 parts (10%) out of 1,572 total parts. The perpetual inventory records were reconciled with the physical counts and the adjustment forms were prepared. We reviewed the records and noted an insignificant difference of \$1,009 (.43%) difference.

### **Guilford Shop**

We visited the shop on June 27, 2007 to observe the inventory counting process. The total value of the count amounted to \$93,610. The inventory valuation before the count was reported in the amount of \$ 94,172, a difference of \$562 (.60%). We took a sample of 103 parts (5%) of the 2,063 items listed, we did not find any discrepancy in their counts. The perpetual inventory records were reconciled as of the date of the count and the adjustment forms were prepared.

We reviewed the first 100 items listed on the inventory list and found that 43 (.43%) of the items out of 2063 parts are less than \$2.00 in value. The shop stores a lot of items that are used for lawn and park related equipment. By removing these inexpensive items from the inventory will save a lot of time and help inventory storage, management and record keeping. The Central Fleet division needs to update the old policy to help remove the less expensive items from the inventory at this shop. We therefore recommend that:

1. *The Central Fleet management amend the existing policy to exclude inventory items with low cost for efficient inventory storage and management.*

### **Mayfield Shop**

We visited the shop on June 28, 2007. The total dollar value of the inventory of the parts counted amounted to \$183,704. The perpetual inventory records amounted to \$182,919 and were reconciled with the end of the physical inventory counting process by preparing the annual

adjustment form. We took a sample count of 129 parts out of 1,298 parts listed (10%). We reviewed the variances listed on the adjustment form and did not find any major differences.

### **Utilities Shop**

We visited the shop on June 25, 2007 to observe the inventory counting process. The recorded value prior to the count was \$29,533 and after the count amounted to \$29,158. We took a random sample of 53 out of 257 (20.6%) parts listed and did not find any discrepancy in the counts. The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was completed.

### **Fuel Inventory**

We met with the Central Fleet administration staff to schedule our fuel inventory (unleaded gasoline and diesel) measurement observation visits. The administration office technician manually measures fuel stored in the tanks monthly, on a fixed schedule. The perpetual inventory record is kept on the computerized Veeder Root device at various shops. The amount of fuel in the tanks is measured by this device on site and printed on the tape. There are no Veeder Root devices at the Banneker Fire Station and the Howard Building sites. The Dorsey buildings Waste Water Plant sites were closed down.

We visited thirteen (13) sites on June 30, 2007 to observe the fuel inventory process. The fuel measurement was taken by the technician of the Central Fleet at all the sites (except Guilford Shop). He also provided a Veeder Root tape of the fuel reading except at the Fire Station No.9 and 10 due to malfunctioning of the machines. We did not observe any significant discrepancies.

The Office of the Central Services prepared a memorandum report for the fuel inventory dated July 10, 2007 for the Department of Finance (Financial Management Division) for the fiscal year 2007. As per the memo gasoline inventory value was \$158,964 and the diesel inventory value was \$149,173, resulting in a total fuel value of \$307,637.